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ABSTRACT

A feasibility study determined the number and scope of existing college companies set up by permission of the Commercial Activities in Further Education Act in Great Britain. A sample of six colleges was studied; managing directors of the six companies took part in semistructured interviews to explore some issues in greater depth. The advantages of using a company structure were in the ability of a company to raise capital and its greater financial independence from local education authorities. The companies surveyed were evenly divided between those limited by shares and those by guarantee. Company policy was determined by a board of directors. College company business could be divided into five main types: the delivery of Training Agency-funded services; design and delivery of training programs; production of goods; provision of consultancy services; and provision of a range of other services. Although all colleges identified disadvantages in setting up a company, none regretted the move. The general trend of all college companies was to encourage an expansion and extension of existing activities. As a result of the college companies, staff development had been necessary at a number of levels and a number of changes in the curriculum were accelerated. Colleges had benefited from the companies; profit earning was not a central concern. (YLB)

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This bulletin summarises the findings of a feasibility study into the impact of college companies on staff and curriculum development. The project was carried out for the Further Education Unit PICKUP programme by Tony Russell of the North East Worcestershire College Training Development Unit, during 1988.

Background

The Further Education Act 1985, *Commercial Activities in Further Education*, was designed to clarify the position of colleges involved in commercial activities with a profit motive, and to encourage others to do the same. The Act permitted LEAs, through their FE establishments, to sell goods and services which arose as by-products of their educational activities. The LEAs were permitted to lend money to such companies at a prescribed rate of interest; any goods and services provided by the companies were to be priced at their open market value.

A great deal of interest has been shown in the possibilities created by the Act; some 300 senior staff attended conferences on setting up college companies, organised by North Worcestershire College and the Coventry Consortium. These conferences drew attention to the opportunities arising from the new Act and provided guidance on the procedures for setting up college companies.

The project

Since no reliable evidence existed of current activity of this kind, the project was designed in two parts: a feasibility study to determine the number and scope of existing initiatives and, if they proved to be numerous, a second more extensive study to examine the different types of companies currently in operation and their influence on their colleges. This feasibility study report is based on completed questionnaires from two-thirds of the colleges which are known to have set up companies, and in-depth interviews with half these respondents.

The process

All FE colleges listed in the *Education Authorities Directory* were sent a letter asking whether they had set up a college

College Companies and Commercial Activities

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company or were in the process of doing so. The letter emphasised that negative returns were required so that the number of college companies could be verified.

Five hundred and forty colleges were sent the letter; 21 reported that they had set up a company and 38 that they were in the process of doing so. Of these, three appeared to have been in existence before the 1985 Act. Fifty have not yet replied. In addition, seven consortia, which are groups of colleges or polytechnics associating for PICKUP work, reported that they had set up a company.

A longer questionnaire was sent to colleges which confirmed that they had set up a company. It asked for details about the company structure, the nature of its business, and its effect on staff and curriculum development.

From these returns, a sub-sample of six colleges was chosen to cover a number of criteria, for example companies limited by shares or guarantee, different business concerns such as consultancy or the production of goods, and geographical spread. Managing directors of the six companies took part in semi-structured interviews to explore some issues in greater depth.

Reasons for setting up a company

Although some colleges had individual reasons for setting up a company, many had motives in common. These included:

- to free themselves from LEA regulations and so become more competitive in the marketplace by:
  - employing staff on extended year contracts, e.g. of 46 weeks,
  - employing staff on different rates, e.g. lecturers on lecturing scales, placements supervisors on APT scales,
  - speeding up the process for engaging staff,
  - using staff more effectively, e.g. academic staff for teaching only, other staff for administration and other purposes;
- to improve their commercial credibility and market image by distancing particular activities from the college (The predominant image of many colleges is that of a place for 16- to 18-year-olds. The use of a new name followed by 'company' was thought to make these activities more commercially appealing.);
- to manage their income more effectively (Some colleges were generating up to a million pounds turnover and wanted to develop better ways of managing it, particularly in LEAs which did not offer a 'roll-over' budgeting system.);
- to separate the activities and liabilities of the company from the college budget so that any risks were taken by the company and not the college;
- to raise loans from the private sector or LEA for capital equipment, such as computers or buildings, at a time of financial stringency;
- to provide an authentic commercial experience for students involved in the activities of the company;
- to improve competitive bids for MSC (now the Training Agency) work;
- to produce goods.

The advantages of using a company structure rather than an enterprise or development unit lay in the ability of a company to raise capital and its greater financial independence.

Company structures

The companies surveyed were evenly divided between those limited by shares and those by guarantee. The reasons for choosing one type or another varied. Some had followed legal advice. Those that had chosen a company limited by guarantee had done so in order to avoid the problem of profits. In such companies, although profits were made, they were not distributed. Tax problems were thus avoided. Those that had chosen a share company did so in order to be able to raise capital or to satisfy a commercial partner. Banks or LEAs which loaned capital to college companies for development wanted the assurance that share holding gave them, that their investment would be returned. Similarly, commercial partners wanted to share control of the company in which they were involved.

The principal or vice-principal was, in most colleges, very involved with the company, often taking the position of managing director or company secretary in the first years of its operation. Day-to-day responsibility for the company was given to company managers who came from a variety of backgrounds, some from the college academic or administrative staff, others from the business world. One interesting feature was the way some staff, who had originally been at lecturer I or II level, had progressed during these commercial activities to become company managers at principal lecturer level.

Company policy was determined by a Board of Directors. The preferred model included:

- representatives of the LEA, both officers and elected members, to provide a line of communication and reassurance to the elected body and the Authority (Often the elected members were college governors.);
- representatives from the business which was the main concern of the company, to provide both market credibility and market intelligence;
- representatives of the governing body (These nominees were usually on the board in a dual role, i.e. as political or commercial representatives as well.);
- the college principal or vice-principal;
- the company manager (if other than the principal or vice-principal);
- a solicitor or accountant from the community to provide professional guidance and local links.

The activities of college companies

College company business can be divided into five main types:

- the delivery of Training Agency funded services, e.g. YTS, Training Access Points, Business Expansion Programmes;
- the design and delivery of training programmes, e.g. computers, restoration of antiques;
- the production of goods, e.g. software packages, musical instruments, educational games;
- the provision of consultancy services, e.g. on the establishment of computer systems, product development, management systems, animal breeding programmes;
- the provision of a range of other services, e.g. office services, desktop publishing.

The problems of using a company

Although all the colleges could identify some disadvantages in setting up a company, none had regretted the move. All felt it would be much easier to set up a second company, which several were planning.

A number of common problems had, however, been encountered:

- Setting up the company, including negotiating with the LEA and getting the organisation under way, had been time consuming. In most cases the burden had been carried directly by the principal or vice-principal.
- The company had to be open for business 52 weeks of the year. However, most academic staff worked a standard 38-week year and it was not always easy to make flexible staffing arrangements.
- To overcome this problem many companies engaged their own staff on 52-week year contracts. However, this arrangement could generate its own problems with company staff resentful of the better conditions of college staff, or college staff envious of the perks, promotions and facilities of the company staff.
- The responsibility for employing staff, dealing with insurance, holiday pay, pensions, and even redundancy, was an unforeseen task traditionally handled by the LEA. The extent of this responsibility varied. Some companies had many employees; others with few full-time permanent staff had contracted instead with the college to supply them. This pattern reduced the burden of being an employer, but at the expense of flexibility of appointments.
- Companies in partnership with private organisations faced the extra problem of making all company activities fully cost recoverable as they could no longer conceal some of the overheads.

- The company was always looking to hire from the college the best staff, rooms and equipment. This could conflict with other curricular demands within the college.
- In colleges which had integrated the activities of the company with the training of students, there was a conflict between the need to give students the most worthwhile experience and the demand of the customer for fast and effective service. For example, a college company providing office services might wish to retain a particular job for a specific group of students so that they could have the benefit of seeing it through from inception to completion. However, such a delay might not be acceptable to the client.

New activities generated by college companies

The general trend of all college companies was to encourage an expansion and extension of existing activities. Company managers were, by nature, entrepreneurial and had a natural inclination to expand and develop the business. Once a company structure had been set up, with its support staff, office space, commercial contracts, experience of negotiation, marketing and preparing Training Agency bids, there was a suitable vehicle for new developments. The company framework with its emphasis on covering costs, if not making profits, encouraged the maximum use of these resources. For example, a company involved initially with computer training had moved into tailor-made software packages, desktop publishing, and the provision of secretarial and business services. A college specialising in the restoration of furniture had moved into restoring ceramics and the conservation of antiquarian books. It should be stressed, however, that the companies surveyed so far had been in existence only a relatively short time and, therefore, were still in the early stages of such product diversification.

The impact of college companies on staff and curriculum development

Integration or isolation?

Contrasting examples of the impact of the company on colleges were found in a small sub-sample. At one extreme, the company had become almost a separate unit with its own staff, buildings and management. At the other, the company's work had 'transformed' (the word used by the principal) all sections of the college into being more responsive.

Staff development

Staff development had been very necessary at a number of levels. There was a major requirement to tune staff to the needs of the commercial environment. This had been done by formal training programmes in:

- costing and pricing;
- marketing;
- negotiating;
- selling;
- customer relations;
- telephone skills.

These programmes, together with a process of on-the-job socialisation, served to bring about changes in attitudes. Staff had begun to think commercially about the costs of the operations they were involved in, to build true overheads into their prices, to satisfy customer demands, to follow leads, and to be aware of commercial possibilities. For example, a member of staff who was liaising with a chamber of commerce saw such meetings not as social occasions but as opportunities for business. If they did not produce orders each time, the meetings were not cost effective.

Other ways of achieving this change of attitudes were running team-building weekends and taking staff away to hotels for training and forward planning exercises.

The presence of the company had been felt by the staff in other ways. It provided improved job interest and stimulation. People reported how the negotiation of a successful contract or the delivery of a specialised course gave them a personal 'buzz'. Such commercial activities provided all the thrill of selling for what they considered a worthwhile cause. Such stimulation was seen by principals to be particularly important at a time when financial constraints had restricted normal promotion.

The college company had provided promotion for some people. One principal recognised that working for the college company automatically involved longer hours and greater commitment and therefore tried to ensure that such a move was accompanied by promotion to a higher grade even if this was only temporary. The motivation and rewarding of senior company staff already at the top of the principal lecturer grade is only just beginning to be addressed and there was some suggestion that performance-related bonus payments would have to be made. This will be investigated further in the second stage of the project.

In addition, there were minor perks associated with company work for which grounds rules had to be made. For example, the sort of clients who could be entertained to lunch and at what level, and the use of expense accounts or company transport.

The need for companies to respond to client needs meant that continuous staff development was necessary to update and extend knowledge and expertise. In the computer field, for example, whereas staff in normal circumstances had some control over the choice of programs they taught, commercial clients were likely to approach them with a demand for training in any of a number of packages. Staff had to be prepared to purchase and understand a wide range of such programs. Personal qualities such as flexibility and keenness were at a premium in such situations.

Curriculum development

Few of the changes in the curriculum were new, but the effect of the company was to accelerate and catalyse these.

The modularisation of courses

Departments had been forced, by the requirements of clients for short training programmes, to reconstruct their traditional year-long programmes into a series of units which could be taken by employees when and where they were available. This enabled clients to buy exactly what they wanted for a particular employee. Some might want the whole programme, others only parts. This was more cost effective and attractive than having to buy a complete programme.

The development of 'roll-on, roll-off' programmes

This innovation was particularly associated with YTS work. Employers were taking on new YTS trainees at all times of the year and the traditional college pattern of courses starting in September or on a set date was no longer appropriate. Staff had to modify their teaching strategies and materials to facilitate new students joining them at almost any time.

The use and modification of open learning materials

One way in which colleges could respond to the demand to take students all year round at a moment's notice was to package some aspects of their courses for self-study so students could be brought to common positions for college-based instruction.

The broadening of provision

The natural expansion of work under company managers led them to increase both the number and range of courses they offered. For example, the demands for word processing packages from a series of clients had resulted in one college stocking and offering 16 different ones.

Improved quality control and presentation of learning materials

Commercial clients paying commercial rates expect quality products. Therefore all colleges had to pay particular attention to the quality of the services they were providing. Training programmes had to be up to date, slickly delivered, and well prepared. There was a general tendency to reduce the length of programmes by cutting out less vital activities. The handouts, literature and other peripherals were being professionally designed and presented, with materials being produced by outside printers or developed using desktop publishing systems.

Improved needs analysis

In order to provide cost-effective, competitive and relevant training, there was a strong emphasis on the careful analysis of client needs. This appeared to be a skilled task which only a few staff could perform. It required not only experience of a particular industry or activity, but also knowledge of existing training programmes and how they could be modified to meet

specific client needs. Company managers reported that this area required further improvement.

Introduction of drop-in facilities

Another response to the demand of clients for immediate training was the development of drop-in facilities. This was very common in the computer training area. Company facilities were being made available for 12 hours a day, with the provision of a booking system.

Institutional development

Colleges, too, have benefited from the establishment of companies. There is a tendency for companies to provide extra facilities and staff, such as fax machines, photocopiers, computers, new buildings, and extra secretarial help, for use across the college. There was common agreement that the presence of the company, with its requirement for smart reception areas, good telephone skills, carpeted rooms, and better landscaping, improved the environment of the college.

Staffing policies

The policy of all principals was to involve as many staff as possible in the company as it increased their commercial experience and made them more aware of customer needs. However, the ability to achieve this varied a great deal. As only a few staff were suitable for this kind of activity, there appeared to be a tendency for companies to be staffed by a small group working almost full-time for the company, with a fringe of others brought in as necessary. However, there were exceptions: in one college more than 40 staff had been involved with the company in some way. It also appeared easier for colleges with a matrix structure to integrate staff into a company, and for the company and its activities to be integrated into the college.

Profits

All companies hoped to operate their business at a profit, but the ability to make profits was not stated to be a central concern. In several cases it was company policy to plough back all profits to avoid corporation tax; in others the objective was to maximise both income and expenditure so that profits were kept to a minimum. College trusts were also being used to avoid paying taxes on profits. All companies charged VAT on their services as they recognised they had a profit element.

ERA and the future of college companies

Some see the college companies being subsumed by the provisions of the new Education Reform Act for financial delegation and greater autonomy for institutions. Enthusiasts surveyed in this project, however, saw the company mechanism as a useful option even within schemes of delegation. While some may see it as a sinister engine attacking conditions of service, much enthusiasm seems to have been generated among staff who see involvement with the company as a means of working comparatively free of restraint and offering avenues for personal progression. FEU would not wish to see commercial considerations overriding educational objectives, but there is little evidence of this. Where profits are made they are reinvested in educational and training objectives. The Act, in fact, does refer to the selling of goods and services which arise 'as by-products' of educational activities. This helps to provide a safeguard for the centrality of education and the curriculum.

The FEU will continue to monitor the development of college companies. The second phase of the current project based at North Worcestershire College is now well under way and another FEU/PICKUP project, 'The Provision of Consultancy Services by the FE System' (RP511), is concluding its work.

Further information

For details of the availability of further copies of this bulletin and other FEU publications, please contact the FEU Information Centre, 2 Orange Street, London WC2H 7WE (tel: 01-321 0433 ext. 256). Enquiries and comments about the contents of this bulletin and the work of the project will be welcome and should be addressed to Martin Johnson at FEU (ext. 274).